



## **Choice Training 5-3: Program Reserve Balance Schedule and Net Elig**

### **1. 5-3 Program Reserve Balance Schedule and Net Eligible Education Expenses**

#### **1.1 Training 5-3:**



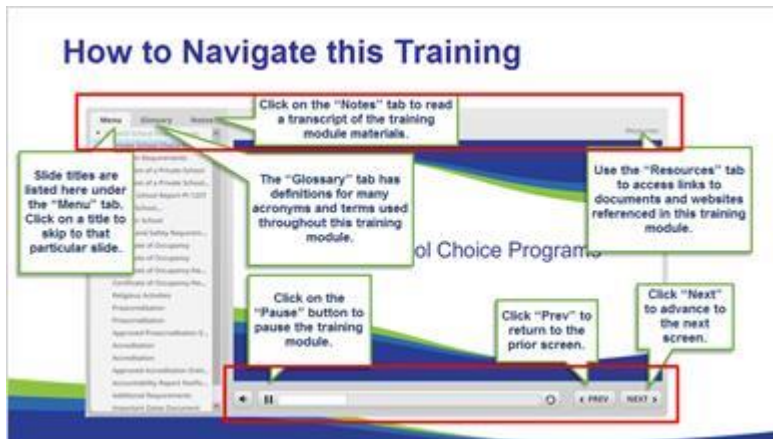
#### **Notes:**

Welcome to the Wisconsin Department of Public Instruction's training module on the Private School Choice Programs. We will refer to the Private School Choice Programs as "Choice" or "Choice Program" throughout this training. The Choice Program is governed by Wis. Stat. §§ 119.23 and 118.60, as well as Wis. Admin. Codes ch. PI 35 and 48. Provisions of this training module are subject to statutory and rule changes.

This training module will discuss the Private School Choice Programs / Special Needs Scholarship Program Reserve Balance Schedule, including explaining net eligible education expenses and the requirements of the Program Reserve Balance.



### 5-3.2 How to Navigate this Training Module



#### Notes:

Before we start, here are some tips and tools you may wish to use when viewing this training.

When listening to this training please note the buttons at the top of the training screen. Titles to all of the slides in this training are listed under the “Menu” tab on the top left of the training screen. You may watch the training in its entirety, or you may skip to a specific slide by clicking on the title of a particular slide.

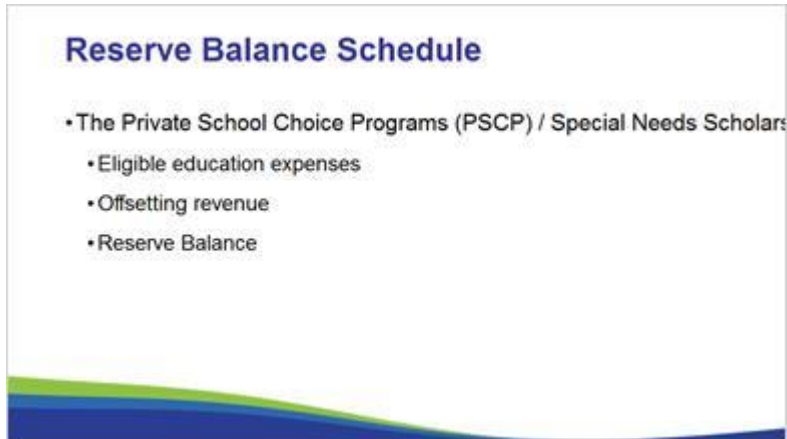
Acronyms and terms that are used throughout this training are defined under the “Glossary” tab on the upper left side of the training screen. If you have any questions about a particular acronym or term that is used in this training, click on the “Glossary” tab to read the definition of that acronym or term.

The “Notes” tab has a transcript of the training materials as they are presented. If you wish to read along with the training, please click the “Notes” tab on the upper left side of the training screen.

We have also posted resources related to this training which can be found under the “Resources” link on the upper right hand side of the training screen.

Next please note the buttons at the bottom of the training screen. If you want to pause on or during a specific slide, please hit the “Pause” button. Clicking the “Prev” button will allow you to return to the previous slide and clicking the “Next” button will allow you to advance to the next slide, if you wish to advance sooner than the auto-timing.

### ***5-3.3 Reserve Balance Schedule***



**Notes:**

As discussed in training module school financial requirements and financial audit overview, an annual financial audit is due to the DPI by October 15<sup>th</sup>. The Private School Choice Programs or Special Needs Scholarship Program Reserve Balance Schedule is an additional statutorily required component that must be submitted along with the financial audit. The Reserve Balance Schedule may also be referred to as the supplemental schedule, as it is an additional schedule to the standard financial audit statements. The Reserve Balance Schedule is used to determine the school's eligible education expenses, offsetting revenue, and the reserve balance.

For schools that participate in the SNSP, a SNSP Reserve Balance Schedule is required that has similar requirements and lines as the PSCP Reserve Balance Schedule. For simplistic sake we will use the PSCP Reserve Balance Schedule as the example throughout this training. We will also make reference to "Program" through which will be a general term that refers to the Program or Programs which are applicable to the school.



### 5-3.4 Reserve Balance Schedule:

**Reserve Balance Schedule:Program Revenue**

2015-16 PSCP REVENUE		
Line	A Line Description	B Amount
1	2015-16 PSCP Revenue	
2	2015 Summer School PSCP Revenue	
3	Total 2015-16 PSCP Revenue	\$ --

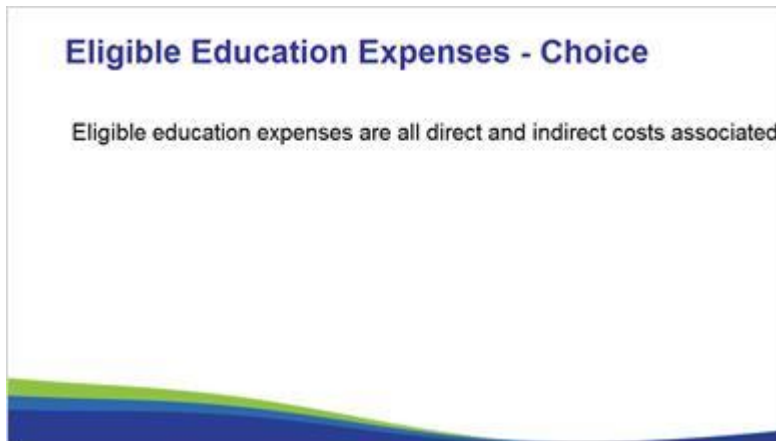
#### Notes:

The first section of the Reserve Balance Schedule is revenue received from the Program. For this training we will use the 2015-16 PSCP Reserve Balance Schedule as the example.

If the school offers summer school, it is considered to be revenue for the following fiscal school year. For example, revenue from the summer school held in 2015, was considered revenue for the 2015-16 fiscal school year. Line 3 is the total of the voucher payments for each eligible pupil during the regular and summer school year. Reference the payment process training module for more information on the payment process and amounts paid to eligible schools.



### ***5-3.5 Eligible Education Expenses - Choice***

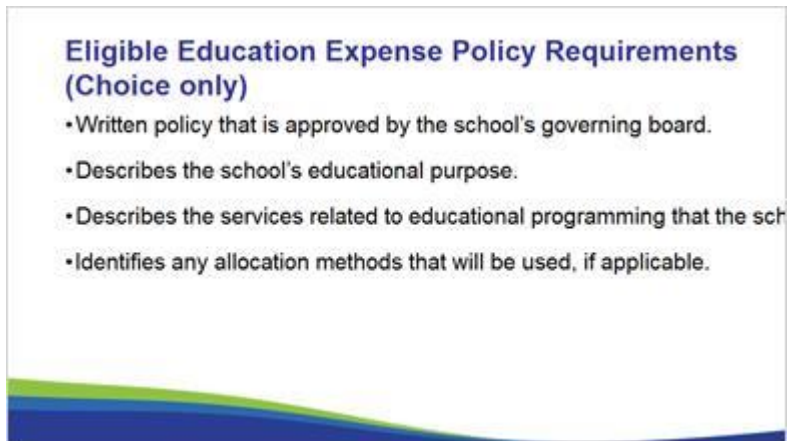


**Notes:**

The next sections of the Reserve Balance Schedule are related to expenditures. There is a concept in the Programs referred to as eligible education expenses. The Program revenues the school receives for eligible pupils in the Programs is required to be spent on eligible education expenses.

Eligible education expenses are all direct and indirect costs associated with a school's educational programming for pupils enrolled in grades kindergarten to 12 that are reasonable for the private school to achieve its educational purposes as determined by the school's written policy and tested by an independent auditor.

### ***5-3.6 Eligible Education Expense Policy Requirements (Choice only)***



#### **Notes:**

To identify what is considered an eligible education expense, schools must have a written eligible education expense policy that is approved by the school's governing board. The policy must describe the school's educational purpose. The policy must also describe the services related to educational programming that the school provides to pupils enrolled in grades kindergarten through 12 that are reasonable to achieve its educational purpose.

The school might have expenses that are partially related to educational programming and partially related to non-educational programming. For example, if the entity was a combined church and school, the same building may be used for both services and there may be individuals who work on both school and church activities. In these cases those expenditures would need to be allocated between what is considered educational programming (related to the school) and what is considered not educational programming (related to the church). If applicable to the school, one of the requirements of the written eligible education expense policy is to identify what allocation method(s) will be used for these types of expenditures. We will further discuss allocation methods later in this training.

### ***5-3.7 Related Services Examples***

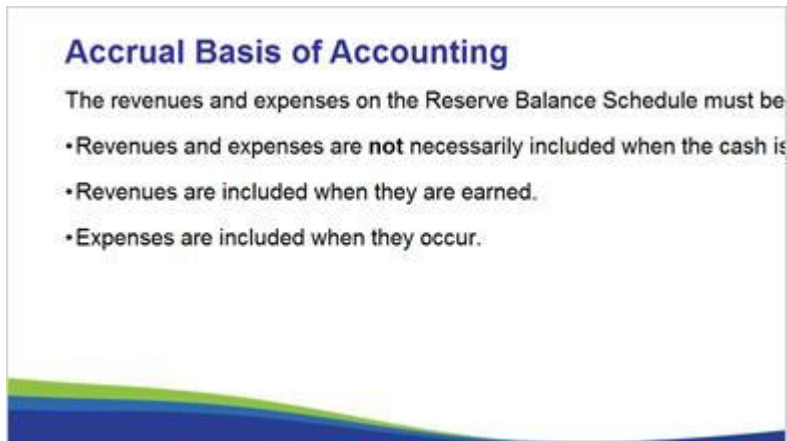


#### **Notes:**

Some examples of related services that the school may provide to support its educational purpose include management or administration, extracurricular activities, development expenses, before and/or after school care to pupils in grades kindergarten through 12, transportation, and food service. Development expenses are expenses the school incurs to raise funds for the school. Before and after school care costs may only be included as an expense for care during the school year or during summer school for pupils that are enrolled in K-12 educational programming. Costs for before and after care for daycare would not be a related service.

The school may identify it has other related services. So the school should think about related services that are provided to meet the educational purpose of the school and ensure those activities are included in the written policy of what the school considers an eligible education expense.

### ***5-3.8 Accrual Basis of Accounting***



**Accrual Basis of Accounting**

The revenues and expenses on the Reserve Balance Schedule must be

- Revenues and expenses are **not** necessarily included when the cash is
- Revenues are included when they are earned.
- Expenses are included when they occur.

#### **Notes:**

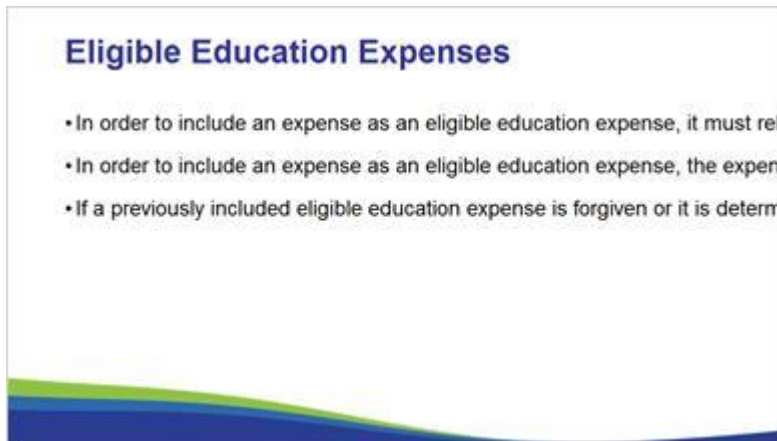
The revenues and expenses recorded on the Reserve Balance Schedule must be prepared using the accrual basis of accounting.

The accrual basis of accounting differs from the cash basis of accounting. The cash basis of accounting would record transactions when either cash is received or paid. Under the accrual basis of accounting, revenue transactions are recorded when they are earned and expense transactions are recorded when they occur.

An example of this difference may be a parent prepaying tuition for the whole school year. If that cash was received before the start of the fiscal school year, the cash basis of accounting would record that revenue immediately. However, under the accrual basis of accounting revenue is not recorded until it is earned throughout the subsequent school year that the tuition was paid for. Similar examples of when the accrual basis of accounting is different may include prepaid expenditures for insurance or subsequently paid expenditures for salaries.



### 5-3.9 Eligible Education Expenses



#### Notes:

Expenses incurred by the school must be evaluated to determine if the expense is an eligible education expense or not based on the school's written capitalization policy.

To be considered an eligible education expense, the expense must either already have been paid or will be paid in the future. For example, assume an item was donated to the school. Generally Accepted Accounting Principles may require that the contribution be recorded as an expense and revenue. However, there is no cash disbursement made by the school, therefore that expense would not be an eligible education expense.

Additionally, some expenses may be incurred in the current fiscal year under the accrual basis of accounting, but not expected to be paid until a future fiscal year. These expenditures will still be considered an eligible education expense in the current fiscal year.

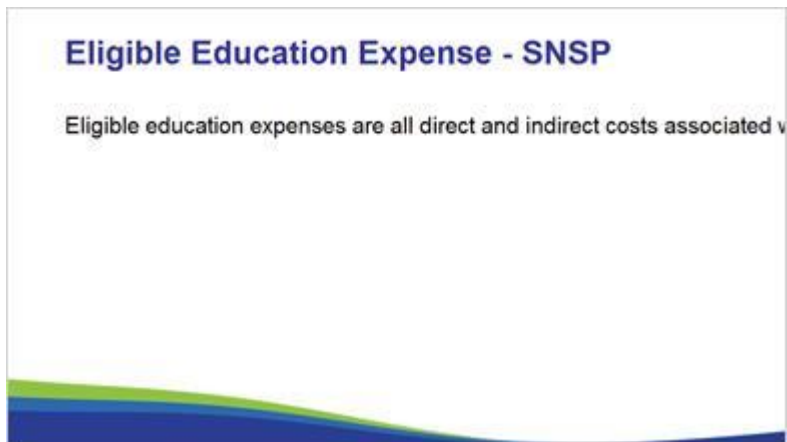
To be considered an eligible education expense, the expense must also be included in the required GAAP financial statement known as the Statement of Activities. Land is an allowable exception to this, which we will discuss later in this training.

If a previously included eligible education expense is forgiven or is determined to not be



an appropriate expense, the current year eligible education expenses must be reduced.

### ***5-3.10 Eligible Education Expense - SNSP***



#### **Notes:**

Eligible education expenses for the Special Needs Scholarship Program are all direct and indirect costs associated with a private school's educational programming for pupils enrolled in grades kindergarten to 12. A written policy is not required for SNSP like it is for Choice. In general, if an expense could be considered eligible for Choice, it is an eligible education expense for the SNSP.

The Special Needs Scholarship Program is a separate program from the Choice Program. In order to participate in this Program, schools must complete a separate Intent to Participate. See the SNSP Homepage for additional information on the SNSP. A link to the website is available in the Resources in the top right corner of the screen.

### 5-3.11 Reserve Balance Schedule:

Reserve Balance Schedule: Non-Eligible Education Expenses		
NON-ELIGIBLE EXPENSES		
4	Depreciation on Contributed Fixed Assets	
5	Other Contributed Items	
6	Bad Debt Expense	
7	Scholarship Awards & Other Financial Support for Pupils	
8	Career Expenses	
9	School District Partnership Expenses	
10	Church Expenses	
11	Other Non-Eligible Expenses	
12	Total Non-Eligible Expenses	\$ --

#### Notes:

Returning to the Reserve Balance Schedule, the next section after revenue is for non-eligible expenses. These are the typical expenditures the school could incur that would not meet one of the required eligible education expense components previously discussed.

To be considered an eligible education expense, the expense must either already have been paid or will be paid in the future. Therefore any contributed items are not eligible education expenses. There is a separate line for any depreciation on contributed fixed assets if the items meets the capitalization threshold, and a separate line for other contributed items.

If it is determined that the school will not receive revenue it originally expected to, a bad debt expense is recorded to write off the revenue. This is also not an eligible education expense.

If the school received revenue from a school district for having a particular class, the expenses are not eligible education expenses for those students. The most common example of this is K4 students. These students would also be excluded from the All Pupil count that will be discussed later.



Other non-eligible education expenses include scholarship or financial support awards for pupils, daycare expenses, church expenses, and a broad category for any other non-eligible expenses.

### 5-3.12 Reserve Balance Schedule:

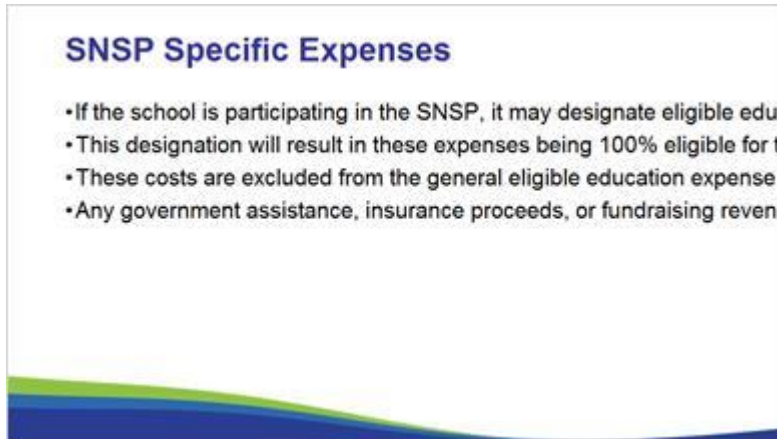
**Reserve Balance Schedule:Eligible Education Expenses**

ELIGIBLE EDUCATION EXPENSES FOR ALL PUPILS	
13	Expenses on Statement of Activities
14	Less: Total Non-Eligible Expenses Line 12
15	Add: Eligible Education Expense for Land
16	Eligible Education Expenses

#### Notes:

The next section of the Reserve Balance Schedule calculates the eligible education expenses of the school. This is completed by including the total expenses recorded on the Statement of Activities, less the total non-eligible education expenses calculated in the schedule. As discussed in the fixed assets training module, land is included as an eligible education expense fully in the first year the land is used for educational programming, or the first year the school participates in the Program if the land is already being used for educational programming. If there is land that meets one of those two requirements in the school year, the cost of the land must be added as an eligible education expense.

### **5-3.13 SNSP Specific Expenses**



**Notes:**

Generally, the eligible education expenses are multiplied by the percent of the school participating in the Choice Program or SNSP. Schools participating in the SNSP can identify SNSP specific expenses. These are expenses that are exclusively for SNSP students. For example, if the school hires a teacher aide to exclusively assist a SNSP student, the cost could be fully included as an eligible education expense. This cost would then need to be excluded from the general calculation of eligible education expenses, for both the SNSP and the Choice Program, if the school is participating in the Choice Program as well.

Any government assistance, insurance proceeds or fundraising revenue related to the SNSP specific costs must decrease the amount of the SNSP specific cost that is eligible. We will discuss these revenues, which are known as offsetting revenues, in greater detail later in the training.



### 5-3.14 Reserve Balance Schedule:

**Reserve Balance Schedule: Offsetting Revenue**

OFFSETTING REVENUE		
17	Government Assistance	
18	Fundraising Revenue	
19	Insurance Proceeds	
20	Total Offsetting Revenue	\$ -

- Government assistance for educational programming expenses
- Fundraising revenue up to the non-administrative fundraising expenses included in eligible education expenses
- Insurance proceeds for educational programming expenses

#### Notes:

The next section in the Reserve Balance Schedule is offsetting revenue. Offsetting revenue is revenue that is received from specific sources that are intended to cover eligible education expenses. The three sources of revenue that are considered offsetting revenue when they correspond to eligible education expenses are government assistance, fundraising revenue, and insurance proceeds.

Government assistance is all revenue for eligible education expenses from the government other than the Choice Programs and the Special Needs Scholarship Program. The most common example of this is the USDA food programs, which is administered through the DPI. Schools that participate in the USDA food programs provide meals to eligible students, incurring an eligible education expense, and then are reimbursed for those expenditures. In this case, the meal expenditures are recorded as an eligible education expense and the USDA revenue is recorded as an offsetting revenue on the Reserve Balance Schedule. Because government assistance generally requires that the amount received be expended on eligible education expenses, even if it is spent in a different school year than the government assistance is included as revenue, the full amount of government assistance is record as offsetting in the year it is earned.

The next offsetting revenue is fundraising revenue. The amount of fundraising revenue that is offsetting is the lesser of the fundraising revenue received or the amount of non-administrative fundraising expenses included in eligible education expenses. We will cover a fundraising example on the next training slide.



Insurance proceeds received to cover eligible education expenses are offsetting revenue. For example, if a storm damages a school building, the school will then incur eligible education expenses to repair the building, and receive insurance proceeds to cover those repairs. The repairs are included as an eligible education expense and the insurance proceeds are included as offsetting revenue.

### 5-3.15 Fundraising Revenue

Fundraising Revenue		
• Offsetting fundraising revenue is the lesser of the following:		
• Fundraising revenue		
• Non-administrative fundraising expenses included in eligible education expenses		
• Administrative expenses include expenses for personnel, mailings, copying, and fixed assets used for		
	Example 1	Example 2
Fundraising Revenue	\$ 25,000	\$10,000
Non-Administrative Fundraising Expenses	\$ 15,000	\$ 12,000
Administrative Fundraising Expenses	\$ 4,000	\$ 1,000
Offsetting Fundraising Revenue	\$ 15,000	\$ 10,000

#### Notes:

The amount of fundraising revenue that is offsetting is the lesser of the fundraising revenue received or the amount of non-administrative fundraising expenses included in eligible education expenses. Administrative expenses (those expenses that are NOT included in the offsetting revenue determination) include expenses for school personnel, copying, mailing, or capital assets used for other school purposes.

For example, a school holds a benefit dinner in the school gym. The administrative staff of the school send out various mailings and make copies of the program. The allocated cost for the school gym, administrative staff time, mailings and copying would all be considered administrative fundraising expenses and not included in the offsetting revenue determination. However, non-administrative expenses, such as the cost for the food for the benefit dinner would be included in the offsetting revenue determination.

Example 1 on this slide is a situation where fundraising revenue of \$25,000 exceeds the



amount of non-administrative fundraising expenditures of \$15,000. Therefore the \$15,000 of non-administrative fundraising expenses is offsetting revenue.

{Insert Cue for Example 2} Example 2 on this slide is a situation where the amount of non-administrative fundraising expenditures of \$12,000 exceeds the fundraising revenue of \$10,000. Therefore the \$10,000 of fundraising revenue is offsetting revenue.

### 5-3.16 Fundraising Revenue Question

#### Fundraising Revenue Question

Which of the following eligible education expenses related to fundraising would be included in the determination of offsetting revenue?

	Cost Included in Determination of Offsetting Revenue?
Development Director Salary & Benefits	
Cost for Scrip Gift Cards	
Mailings and copying	
Cost for food for benefit dinner	
Rental of conference room at hotel for benefit dinner	
Allocated costs for school personnel who help with benefit dinner	

#### Notes:

In this activity, the screen shows different types of fundraising expenses. Which of these expenses would be included in the determination of what fundraising revenue was offsetting? As a reminder, the fundraising revenue that is included in the offsetting revenue determination is the non-administrative portion of the revenue. When you are ready to proceed to review the correct answers, click the next button.



### 5-3.17 Fundraising Revenue Question

Fundraising Revenue Question	
Which of the following eligible education expenses related to fundraising would be included in the determination of how much fundraising revenue is offsetting revenue?	
	Cost Included in Determination of Offsetting Revenue?
Development Director Salary & Benefits	No
Cost for Scrip Gift Cards	Yes
Mailings and copying	No
Cost for food for benefit dinner	Yes
Rental of conference room at hotel for benefit dinner	Yes
Allocated costs for school personnel who help with benefit dinner	No

#### Notes:

The first item is a development director's salary and benefits. School personnel costs are considered administrative costs, so this would **not** be included in the determination of what is offsetting revenue.

The next item is the cost for scrip gift cards. This is not an administrative cost, so it **would** be included in the determination of what is offsetting revenue.

The next item is mailings and copying. These are considered administrative costs, so this would **not** be included in the determination of what is offsetting revenue.

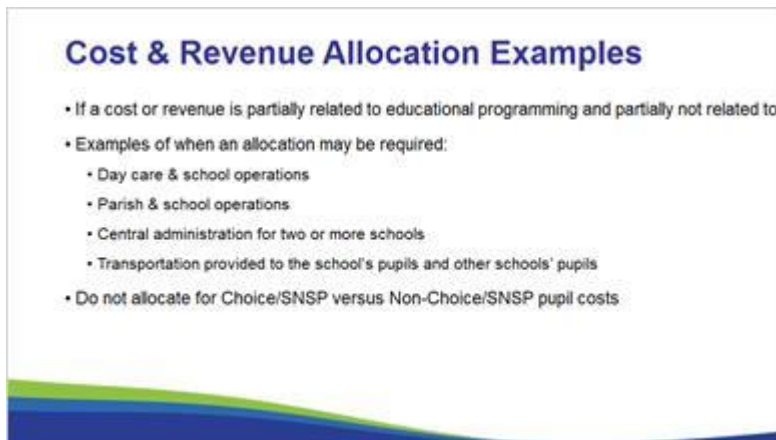
The next item is the cost for food for benefit dinner. This is not an administrative cost, so it **would** be included in the determination of what is offsetting revenue.

Next we have the cost of renting a conference room at a hotel for a benefit dinner. In this case, the school is not just using part of a school building for the dinner, so this cost **would** be included in the determination of what is offsetting revenue.

Finally, the allocated costs for school personnel who help with a benefit dinner are considered administrative and would **not** be included in the determination of what is

offsetting revenue.

### ***5-3.18 Cost & Revenue Allocation Examples***



**Cost & Revenue Allocation Examples**

- If a cost or revenue is partially related to educational programming and partially not related to
- Examples of when an allocation may be required:
  - Day care & school operations
  - Parish & school operations
  - Central administration for two or more schools
  - Transportation provided to the school's pupils and other schools' pupils
- Do not allocate for Choice/SNSP versus Non-Choice/SNSP pupil costs

#### **Notes:**

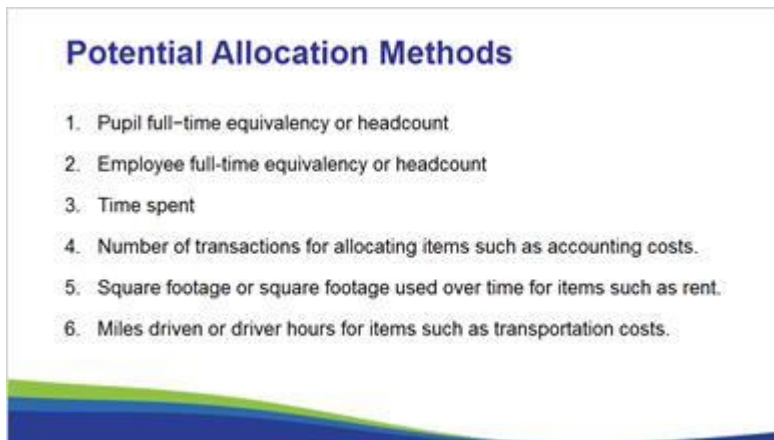
Some expenditures may require an allocation when determining eligible and non-eligible education expenses. Additionally some revenues may require an allocation when determining the portion of revenue that is offsetting revenue. If a cost or revenue is not already separately accounted for, and partially relates to educational programming and partially to non-educational programming, that cost or revenue must be allocated using an allocation method.

Some examples of when an allocation may be required include a school that is also a daycare and/or church, a school that has central administration for two or more schools, or a school that provides transportation to the school's pupils as well as a different school's pupils.

It is important to distinguish that these allocations are for educational programming vs non-educational programming. The allocation is not for Choice or Special Needs Scholarship Program pupils vs non-Choice or non-Special Needs Scholarship Program pupils. The reason for this is to determine the total eligible education expenses of the school. That total amount will then be multiplied by the percent of the school

participating in the Choice Program or Special Needs Scholarship Program.

### ***5-3.19 Potential Allocation Methods***



#### **Notes:**

What allocation method is best to use will likely vary depending on the expense or revenue being allocated. Some potential allocation methods to consider using would be pupil FTE or headcount, employee FTE or headcount, time spent, number of transactions, square footage or square footage used over time, and miles driven or driver hours. We will cover how some of these allocation methods could be used in the following slides.

The determination of which allocation method should be used depends on what is being allocated and what data is available. The school may want to identify a few allocation methods that can be used to allocate several different expenditures or revenues. It is beneficial if the school can identify allocation methods that can be used to allocate several different things. It is important that the school identify what allocation methods it will use at the beginning of the year so the school is tracking the data that is required to complete the allocations.

If the entity has both educational programming and non-educational programming, and allocation methods are required, the school's written eligible education expense policy must describe what allocation methods will be used and for which categories of expenses

and/or revenues.

### 5-3.20 Leased Facility Allocation Percentage

**Leased Facility Allocation Percentage**

The school has a lease that requires rental payments of \$5,000 per month. The location is used for the school and daycare. The school occupies 10,000 square feet for 10 months of the year and the daycare occupies 5,000 square feet for 12 months of the year.

	Square Feet	Months	Total
Daycare	5,000	12	60,000
School	10,000	10	100,000
Total			160,000

School use percentage:  $100,000 / 160,000 = 63\%$

Eligible Education Expense:  $\$60,000 \times 63\% = \$37,800$

#### Notes:

This is an example of how square feet used over time could be used to allocate an expense or revenue. For example, if a school operated as a school and daycare and used a leased building for both operations, an allocation based on square feet used over time could be used.

This allocation would be calculated by taking the amount of square feet for each operation times the period of time used for each operation. For the daycare this could be 5,000 square feet times 12 months for a subtotal of 60,000. For the school this would be 10,000 square feet times 10 months for a subtotal of 100,000. 60,000 and 100,000 would then be added together to get an organization total of 160,000.

{insert transition cue} To determine the percentage that relates to the school, the school subtotal of 100,000 would be divided by the organization total of 160,000. This calculates to be a school use of 63%.

{insert transition cue} This percentage would then be applied to the cost of the annual lease payments in determining how much of the lease expense is an eligible education



expense. The lease payment is \$5,000 per month times 12 months for \$60,000 annually. The \$60,000 is then multiplied by the school use percentage of 63%. This results in \$37,800 of eligible education expenses for the lease of the building.

**5-3.21 Which of the following could be included as an eligible education expense?**

**Which of the following could be included as an eligible education expense?**

*For Choice, related services must be included in the policy to be eligible*

Cost for paying a teacher to watch students in an after school childcare program.	
Cost of providing lunch for the teachers.	
Purchase of a refrigerator that is paid using DPI food program funds.	
Payment of outstanding Accounts Payable in the subsequent school year.	
Fair market value of supplies that are donated by the administrator.	
Cost for stage materials for a drama club.	

**Notes:**

We will now do an activity related to what is an eligible education expense. For Choice Program purposes, we are determining which of these expenses could be identified as eligible education expenses by the school. Whether or not they would be considered eligible is based on the eligible education expense policy of the school. As a reminder, for SNSP purposes, no eligible education expense policy is required.

Please review the slide and determine which of the expenses you believe could be an eligible education expense. When you are ready to proceed to review the correct answers, click the next button.

**5-3.22 Which of the following could be included as an eligible education expense?**

Which of the following could be included as an eligible education expense?	
<i>For Choice, related services must be included in the policy to be eligible</i>	
Cost for paying a teacher to watch students in an after school childcare program.	Yes
Cost of providing lunch for the teachers.	Yes
Purchase of a refrigerator that is paid using DPI food program funds.	Yes
Payment of outstanding Accounts Payable in the subsequent school year.	No
Fair market value of supplies that are donated by the administrator.	No
Cost for stage materials for a drama club.	Yes

**Notes:**

The cost is the cost for paying a teacher to watch students in an after school childcare program. The cost to watch K-12 educational programming students in a before or after care program could be an eligible education expense. If the teacher was watching daycare students as well, the school would need to use an allocation to determine what portion of his or her time was an eligible education expense.

The next example is the cost to provide lunch for the teachers. The school could designate this as a benefit for the teachers or provide lunch during a meeting, for example. Therefore, this could be an eligible education expense.

If the school purchases a refrigerator that is paid for using DPI food program funds, the cost could be included as an eligible education expense. As we discussed in the offsetting revenue section, however, the eligible education expense would be decreased by the amount of revenue received from the USDA food program. So, if the school had \$5,000 of USDA food program funds remaining after paying for all other food related costs and the school purchased a refrigerator for \$7,000, the \$7,000 would be included in the eligible education expenses and the \$5,000 (related to this purchase) would be included in offsetting revenue. The school would be able to include the net amount of \$2,000 in net eligible education expenses.



In the next example, the school incurred an expense in year one and recorded the expense in that year. In year 2, the school paid for that expense. In year 2, would the expense be considered an eligible education expense? The correct answer is no. Under the accrual basis of accounting, the expense would be included in the first year, when the expense was incurred, not in the second year when the school paid for the expense.

Next, the fair market value of supplies that are donated by the administrator would not be an eligible education expense because the school did not spend any money for the supplies. As a reminder, the school must pay cash, either now or in the future, for an expense to be included as an eligible education expense.

The final example on this slide is the cost for stage materials for a drama club. The cost for extracurricular activities could be an eligible education expense.

**5-3.23 Which of the following could be included as an eligible education expense?**

**Which of the following could be included as an eligible education expense?**

*For Choice, related services must be included in the policy to be eligible*

Computer for administrative staff person who works 25% on the school and 75% on the church.	
Legal pro-bono work.	
Cost for extra-curricular football supplies.	
Cost for classroom supplies for a grade that does not have Choice/SNSP students in it.	
Salary costs for a pastor that teaches religious education at the school.	
Scholarship awarded to a student.	

**Notes:**

Please review the slide and determine which of the expenses you believe could be an eligible education expense. When you are ready to proceed to review the correct answers,





click the next button.

**5-3.24 Which of the following could be included as an eligible education expense?**

Which of the following could be included as an eligible education expense?	
<i>For Choice, related services must be included in the policy to be eligible</i>	
Computer for administrative staff person who works 25% on the school and 75% on the church.	Yes (25%)
Legal pro-bono work.	No
Cost for extra-curricular football supplies.	Yes
Cost for classroom supplies for a grade that does not have Choice/SNSP students in it.	Yes
Salary costs for a pastor that teaches religious education at the school.	Yes
Scholarship awarded to a student.	No

**Notes:**

In the next example, the school would use an allocation percentage and include the cost for the computer for an administrative person based on the portion of time that the administrative person works for the school.

Legal pro-bono work is a lawyer donating their time to assist the school with legal matters. In this case, the school has not expended cash for the services provided, so the cost is not an eligible education expense.

Next is the cost for extra-curricular football supplies. Similar to the supplies for the drama club, this could be an eligible education expense.

The next example is a cost for classroom supplies for a grade that does not have Choice or SNSP students in it. As we previously discussed, we are trying to determine the total educational programming costs for ALL students at the school, even if they are not in the Choice Program or SNSP. Once we determine this total cost, we will multiple it by the





percent of students participating in the Choice Program or SNSP. Therefore, even if a class does not have any Choice or SNSP students in it, the classroom supplies for the grade should still be included in eligible education expenses.

The next example is the salary for a pastor that teaches religious education at the school. While Choice students can opt out of religious education, the cost for a pastor that teaches religious education at the school is still an eligible education expense for the school. If the pastor was also the pastor for a church, the school would need to use an allocation method to determine what portion of their salary is an eligible education expense.

Finally, a scholarship awarded to a student is not an eligible education expense. Scholarship awards and financial support are not considered eligible education expenses because we are trying to determine what is the cost to educate the students. Scholarship awards or financial support is essentially the “tuition” used to pay for the educational programming for a particular child. Therefore, including this cost would essentially include the cost to educate that child twice.

### **5-3.25 Reserve Balance Schedule:**

**Reserve Balance Schedule:  
Net Eligible Education Expenses for All Pupils**

NET ELIGIBLE EDUCATION EXPENSES FOR ALL PUPILS		
21	Eligible Education Expenses Line 16	-
22	Less: Offsetting Revenue Line 20	-
23	Net Eligible Education Expenses for All Pupils	\$ -

#### **Notes:**

The eligible education expenses and offsetting revenues have now been determined and

calculated, including any applicable allocations in the Reserve Balance Schedule. Net eligible education expenses for all pupils is then calculated by taking the total eligible education expenses less the total offsetting revenue. Offsetting revenue is a decrease to eligible education expenses because the specific sources of revenue that are considered offsetting are considered to be paying for the corresponding eligible education expense.

### 5-3.26 Reserve Balance Schedule:

**Reserve Balance Schedule:  
Percentage of Pupils that are Choice / SNSP Pupils**

PERCENTAGE OF PUPILS THAT ARE CHOICE		
24	Choice Pupil Average FTE 3rd Friday Sept & 2nd Friday Jan Average	
25	All Pupil Average FTE 3rd Friday Sept & 2nd Friday Jan Average	
26	Percentage of Pupils that are Choice	0.00%

	3 <sup>rd</sup> Friday in Sept FTE	2 <sup>nd</sup> Friday in Jan FTE	Average FTE
Program Pupil	60	58	59
All Pupil	100	110	105

Percentage of Pupils in Program:  $59 / 105 = 56.19\%$

#### Notes:

As will be covered in the pupil count and enrollment audit training modules, schools are required to submit official count reports and have an Enrollment Audit for the 3<sup>rd</sup> Friday in September and 2<sup>nd</sup> Friday in January. These reports will be used to calculate the full-time equivalent pupils that attended the school on these count dates. Full-time equivalent is abbreviated as FTE. A pupil average FTE will be calculated for both eligible Program Pupils attending the school as well as All Pupils attending the school. The All Pupil count includes both Program and non-Program pupils. The Reserve Balance Schedule will then calculate the percentage of pupils that participate in the Program.

Additional information on how the FTE is determined is available in the Payment Process Overview training module.

{insert transition cue} As an example of this calculation, the school has Program pupils of 60 FTE on the 3<sup>rd</sup> Friday in September and 58 FTE on the 2<sup>nd</sup> Friday in January. The Program Pupil Average FTE of these two numbers is 59.



On the 3<sup>rd</sup> Friday in September, the school has 60 FTE pupils that participate in the Program plus 40 FTE pupils that do not participate in the Program for an All Pupil count of 100 FTE. On the 2<sup>nd</sup> Friday in January, the school has an all pupil FTE of 110. The All Pupil Average FTE of these two numbers is 105.

{insert transition cue} The Program Pupil average FTE of 59 is then divided by the All Pupil average FTE of 105 to calculate the percentage of pupils that are in the Program, which is 56.19%.

### 5-3.27 Reserve Balance Schedule:

Reserve Balance Schedule: Net Eligible Education Expenses for Choice/SNSP Pupils		
NET ELIGIBLE EDUCATION EXPENSES FOR ALL PUPILS		
21	Eligible Education Expenses Line 16	-
22	Less: Offsetting Revenue Line 20	-
23	Net Eligible Education Expenses for All Pupils	\$ -
PERCENTAGE OF PUPILS THAT ARE CHOICE		
24	Choice Pupil Average FTE 3rd Friday Sept & 2nd Friday Jan Average	
25	All Pupil Average FTE 3rd Friday Sept & 2nd Friday Jan Average	
26	Percentage of Pupils that are Choice	0.00%
30	Less: Net Eligible Education Expenses for Choice Pupils Line 23 times Line 26	-

#### Notes:

Net eligible education expenses for Program Pupils is then calculated on the Reserve Balance Schedule. This is completed by multiplying the net eligible education expenses for all pupils by the percentage of pupils that are in the Program.



### 5-3.28 Reserve Balance Schedule:

Reserve Balance Schedule: Program Reserve Balance		
RESERVE BALANCE		
27	Total 2015-16 PSCP Revenue Line 3	-
28	June 30, 2015 PSCP Reserve Balance	
29	Total PSCP Revenue Available	\$ -
30	Less: Net Eligible Education Expenses for Choice Pupils Line 23 times Line 26	-
31	June 30, 2016 PSCP Reserve Balance	\$ -
32	Plan for PSCP Reserve Required	Not Required

• The PSCP Reserve Balance is the difference between the PSCP and/or SNSP revenue received and net

#### Notes:

The Reserve Balance Schedule then calculates the Reserve Balance.

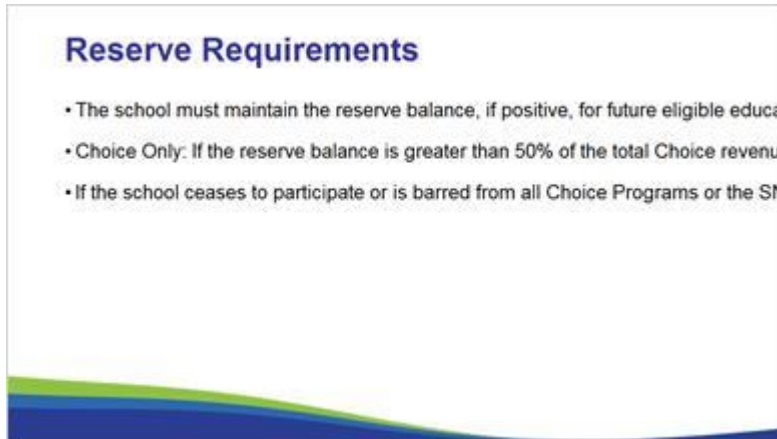
The first half of this calculation is to determine the Program revenue available. This is completed by adding the current year Program revenue received to the prior fiscal year Reserve Balance.

The Reserve Balance is then calculated by subtracting the net eligible education expenses for Program pupils from the Program revenue available. This number may be positive or negative.

If the Reserve Balance is a negative number, the school spent more on net eligible education expenses for Program pupils than has received in Program revenue. This balance is carried forward to future years.

If the Reserve Balance is a positive number, the school has not yet spent all of the Program revenue received on net eligible education expenses for Program pupils. This balance is carried forward to future years and must eventually be spent on additional net eligible education expenses for Program pupils.

### 5-3.29 Reserve Requirements



#### Notes:

The payments made to the school by the Program are required to be spent on eligible education expenses. Therefore, if the school has a positive Reserve Balance, the school is required to maintain the Reserve Balance for future eligible education expenses.

For schools in the Choice Program, if the PSCP Reserve Balance is greater than 50% of the total Choice revenue received by the school in the prior year the governing body of the private school must approve a plan for how it will use the amount of the Reserve Balance that exceeds the 50% threshold. If this is required, it will be indicated on the Reserve Balance Schedule. The school's independent auditor will then ensure the school has a plan, if required, as part of the Fiscal & Internal Control Practice Report.

If the school ceases to participate or is barred from all Choice Programs or the Special Needs Scholarship Program, the school will be required to repay the Reserve Balance to the DPI.



### 5-3.30 Reserve Balance Schedule:

**Reserve Balance Schedule:  
Required Minimum Cash and Investment Balance**

REQUIRED CASH AND INVESTMENT BALANCE		
33	June 30, 2016 PSCP Reserve Balance Line 31	-
34	Less: Remaining Depreciation on Fixed Assets	
35	Less: Land Purchases that have not been included as Eligible	
36	Required Cash and Investment Balance	\$ -

\* Land purchases that are not yet being used for educational programming purposes and the remaining dep

#### Notes:

The final section of the Reserve Balance Schedule is the calculation of the required cash and investment balance. Schools that have a positive Reserve Balance have received more Program revenue than has been spent on net eligible education expenses for Program pupils. In this case, the school is required to maintain that Reserve Balance for future net eligible education expenses for Program pupils. Therefore schools are required to have a cash and investment balance that is at least as much as the Reserve Balance.

There are two potential long term situations where cash would be expended yet the expense may not be recorded as an eligible education expense until future years.

The first is remaining depreciation on fixed assets. If a fixed asset was purchased for \$5,000 with a useful life of 5 years, annual depreciation of \$1,000 would be recorded for each year. If the fixed asset had only incurred 1 year of depreciation thus far, 4 years of depreciation would be remaining. That remaining \$4,000 has already been spent and will be an eligible education expense in future years. Therefore the remaining depreciation on fixed assets is a reduction to the Reserve Balance when determining the school's required cash and investment balance.

The other situation is if the school has purchased any land, but the land is not yet being used for educational programming purposes. The land will not be included as an eligible

education expense until the year it is used for educational programming purposes. Therefore the land cost is also a reduction to the Reserve Balance when determining the school's required cash and investment balance.



**Notes:**

If you have any questions about the information discussed in this training, please see the Private School Choice Programs homepage. The left menu bar of the Private School Choice Programs homepage has resources for both schools and parents.

Choice schools may also contact the Choice audit team at [DPIChoiceAuditReports@dpi.wi.gov](mailto:DPIChoiceAuditReports@dpi.wi.gov) with questions.